

*CanCorp*



**AHED MUSIC CORPORATION LIMITED**

**ANNUAL REPORT**

**1974**







## HIGHLIGHTS OF OPERATIONS

Years ended November 30	1974	1973	1972	1971	1970
Gross revenue	\$6,825,694	\$6,117,586	\$5,305,994	\$5,010,546	\$3,917,297
Profit before income taxes	102,692	61,375	344,366	345,927	194,883
Income taxes	39,500	35,521	83,700	103,570	93,422
Net profit	63,192*	25,854*	260,666	242,357	101,461
Total assets	4,088,682	4,365,049	3,498,069	3,242,645	2,500,083
Shareholders' equity	1,838,284	1,796,734	1,844,380	1,508,114	1,235,357
Net return on shareholders' equity	3.4%*	1.4%*	15.6%	17.7%	8.6%
Shares outstanding	826,500	826,500	826,500	807,600	800,000
Net profit per share	7.6¢*	3.1¢*	31.9¢	30.0¢	12.7¢

\*Before Extraordinary Item



## PRESIDENT'S REPORT 1974

The turn-around indicated in our third quarter report continued through the 4th quarter and in spite of the fact that we undertook the amalgamation of three operating divisions and discontinued three others, our last half volume was the highest in the company's history.

Under the direction of President Bill Gilliland, Arc Sound Co. Limited changed from a combination manufacturing-marketing operation to a predominantly marketing oriented company.

To recap, during this year we closed our musical instrument division in the U.S., sold our musical instrument division in the U.K. and reached agreement in principle for the sale of our electronics division in Canada. We combined the distribution of phonograph records and tapes, musical instruments and amplifiers under one division.

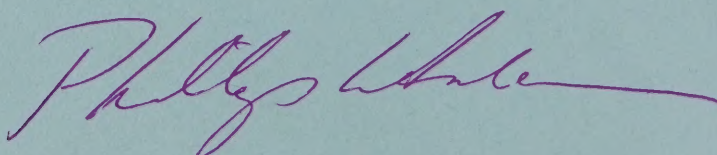
The expertise put into consolidating the marketing of records, tapes and musical instrument product and streamlining the operation of these areas resulted in increased sales volume accompanied by lower cost and higher profits.

Although reorganizational efforts left little time for artist production and music publishing activities, we scored on the charts of the two leading U.S. record industry trade papers, Billboard and Cashbox, with "VIRGINIA (Touch Me Like You Do)" by Bill Amesbury and "Tell Laura I Love Her" by Johnny T. Angel. Bill Amesbury was nominated by Cashbox as one of the top new artists of 1974 and Gilliland-Amesbury were nominated for Producer of the Year Juno Awards. In addition, we produced the original music for Dick Clark Productions, ABC-TV pilot called "Grand Imperial Hotel".

Ahed National Franchises Limited, operating Mr. Music keyboard retail stores, continued to improve in increased sales and operating results. One new store was opened during the year but we plan to commence an expansion program during 1975 based on industry predictions for a continuing increase in the sales volume of organs and pianos in spite of the current downtrend in the economy.

We continue to be grateful for the support of our shareholders and employees and look forward with optimism to a steadier economic climate in 1975 so that we can implement further expansion.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Phillip G. Anderson", with a long, sweeping horizontal line extending to the right.

Phillip G. Anderson,  
President.



**AHED MUSIC CORPORATION LIMITED**  
and subsidiary companies

**CONSOLIDATED STATEMENT OF INCOME  
AND RETAINED EARNINGS**

for the year ended November 30, 1974  
(with comparative figures for 1973)

	1974	1973
Sales and royalty income	\$6,825,694	\$6,117,586
Cost of sales	4,209,500	4,001,760
INCOME BEFORE THE UNDERNOTED EXPENSES	2,616,194	2,115,826
EXPENSES:		
Selling, general and administrative	2,341,775	1,923,847
Interest on long-term debt	91,250	49,980
Depreciation and amortization (note 5)	80,477	75,007
	2,513,502	2,048,834
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS (note 4)	102,692	66,992
Income taxes — current	25,400	35,521
— deferred	14,100	
	39,500	35,521
Income before extraordinary items	63,192	31,471
EXTRAORDINARY ITEMS (note 6):		
Loss on sale of subsidiary company	25,323	
Estimated loss on liquidation of inventories (after income tax recoveries of \$14,000; \$76,500 in 1973)	16,000	73,500
	41,323	73,500
NET INCOME (LOSS) FOR THE YEAR	21,869	(42,029)
Retained earnings, beginning of the year:		
As previously reported	666,614	694,579
1971 and 1972 IRDIA grants received (note 3)		14,064
As restated	666,614	708,643
RETAINED EARNINGS, END OF THE YEAR	\$ 688,483	\$ 666,614
EARNINGS (LOSS) PER SHARE:		
Before extraordinary items	7.6¢	3.8¢
Extraordinary item	(5.0¢)	(8.9¢)
NET INCOME (LOSS)	2.6¢	(5.1¢)

(See accompanying notes)

**AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF AHED MUSIC CORPORATION LIMITED:**

We have examined the consolidated balance sheet of Ahed Music Corporation Limited and its subsidiary companies as at November 30, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting

records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at November 30, 1974 and the results of their operations and the changes in their financial position for the year then

ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.  
CHARTERED ACCOUNTANTS  
Toronto, Canada,  
March 30, 1975.



# AHED MUSIC CORPORATION LIMITED

(Incorporated under the laws of Ontario)  
and subsidiary companies

## CONSOLIDATED BALANCE SHEET

NOVEMBER 30, 1974

(with comparative figures at November 30, 1973)

### ASSETS

	<u>1974</u>	<u>1973</u>
CURRENT:		
Cash		\$ 61,015
Accounts receivable	\$2,111,074	2,218,345
Current portion of long-term receivable	21,600	
Inventories, at lower of cost and net realizable value	1,503,349	1,573,499
Prepaid expenses and deposits	18,622	70,958
Income taxes recoverable	2,847	38,500
	<u>3,657,492</u>	<u>3,962,317</u>
FIXED, at cost:		
Machinery and equipment	381,818	411,809
Office equipment	73,311	64,513
Automotive equipment	24,224	24,224
Leasehold improvements	160,730	189,545
	<u>640,083</u>	<u>690,091</u>
Less accumulated depreciation	313,506	360,652
	<u>326,577</u>	<u>329,439</u>
OTHER:		
Long-term receivable, less current portion (note 6)	41,892	
Deferred development costs		22,000
Goodwill, trademarks and patents (note 5)	47,898	51,489
Cost of public financing less portion amortized	9,533	11,917
Incorporation expenses, less amounts written off	5,290	7,568
	<u>104,613</u>	<u>92,974</u>
	<u>\$4,088,682</u>	<u>\$4,384,730</u>

Approved on behalf of the Board:

P. G. Anderson, Director

W. R. Gilliland, Director





## LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1974</u>	<u>1973</u>
<b>CURRENT</b>		
Bank indebtedness (note 2)	\$ 137,425	
Demand loan (note 2)	575,000	\$ 650,000
Accounts payable	745,967	1,014,935
Long-term debt due within one year	123,000	123,000
Taxes payable	50,406	65,880
	<u>1,631,798</u>	<u>1,853,815</u>
Special term bank loan repayable by instalments totalling \$123,000 yearly (note 2)	595,500	714,500
	<u>2,227,298</u>	<u>2,568,315</u>
Deferred income taxes	<u>23,100</u>	
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital —		
Authorized:		
1,500,000 shares without par value		
Issued:		
826,500 shares	1,149,801	1,149,801
Retained earnings	688,483	666,614
	<u>1,838,284</u>	<u>1,816,415</u>
	<u>\$4,088,682</u>	<u>\$4,384,730</u>

(See accompanying notes)



# AHED MUSIC CORPORATION LIMITED

and subsidiary companies

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED NOVEMBER 30, 1974

(with comparative figures for 1973)

	1974	1973
<b>FUNDS PROVIDED FROM:</b>		
Operations—		
Net income (loss) for the year	\$ 21,869	\$ (42,029)
Add items not involving a flow of funds:		
Depreciation and amortization	80,477	75,007
Deferred development costs written-off	22,000	40,024
Deferred income taxes	14,100	
Amortization of public financing	2,384	
Goodwill written off	3,591	
Incorporation expenses	2,278	
Provision for loss on sale of subsidiary company	25,323	
	<u>172,022</u>	<u>73,002</u>
Long-term bank loans		152,000
Reclassification of income taxes from current to deferred	9,000	
IRDIA grants received		14,064
Current portion of long-term receivable	21,600	
	<u>202,622</u>	<u>239,066</u>
<b>FUNDS USED FOR:</b>		
Purchase of fixed assets (net)	77,615	222,806
Repayment of long-term debt	119,000	75,000
Increase in goodwill from acquisition of subsidiary		3,322
Deferred development costs		22,000
Other		231
Long-term account receivable	88,815	
	<u>285,430</u>	<u>323,359</u>
Decrease in working capital	(82,808)	(84,293)
Working capital, beginning of the year	<u>2,108,502</u>	<u>2,192,795</u>
Working capital, end of the year	<u>\$2,025,694</u>	<u>\$2,108,502</u>

(See accompanying notes)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at November 30, 1974

#### 1. PRINCIPLES OF CONSOLIDATION AND EXCHANGE TRANSLATION

The consolidated financial statements include the accounts of the company and all its subsidiaries. Current assets and liabilities in foreign currency have been translated into Canadian dollars at the approximate rate of exchange at November 30, 1974. Other transactions have been translated at the rates of exchange prevailing on the respective dates of the transactions.

#### 2. BANK INDEBTEDNESS, DEMAND LOAN AND SPECIAL TERM BANK LOAN

The special term bank loan is collateralized by a demand note. Book debts, manufacturing inventories and the machinery and equipment of the Ahed companies are pledged as security for the bank indebtedness, the demand loan and the special term bank loan together with floating charge debentures to the aggregate amount of \$1,900,000.

#### 3. PRIOR PERIOD ADJUSTMENT

A subsidiary company received Industrial Research and Development Incentive grants during the

year. The grants had not been recorded in the accounts of the subsidiary company in previous years because the company was uncertain whether the claims would be accepted by the government. As a result of these grants 1973 net income has been increased by \$5,617 and opening retained earnings has been increased by \$14,064. The grants received relate to:

1973	—	\$5,617
1972	—	8,205
1971	—	5,859

#### 4. INCOME TAXES

Income before income taxes and extraordinary items include the following:

	1974	1973
Income from taxable corporations	\$ 97,117	\$ 84,405
Foreign income not subject to income taxes	11,924	97,724
	<u>109,041</u>	<u>182,129</u>
Less losses of subsidiaries	(6,349)	(115,137)
Income before income taxes and extraordinary items	<u>\$ 102,692</u>	<u>\$ 66,992</u>

Reductions in income taxes of approximately \$25,000 which may result from the application of losses incurred in the year by

#### 5. DEPRECIATION AND AMORTIZATION

Fixed assets are depreciated following the diminishing balance basis at the following rates:

Machinery and equipment	— 20%
Office equipment	— 20%
Automotive equipment	— 30%

Leasehold improvements are amortized on the straight-line basis over the terms of the leases.

Patents, with a book value of \$1,126 are amortized on a straight-line basis over seventeen years. It is not the company's intention to amortize goodwill and trademarks unless their value is impaired.

subsidiaries will be included in the income of the companies as extraordinary items when and to the extent that they are realized.

#### 6. EXTRAORDINARY ITEMS

During the year the company undertook an agreement to dispose of its investment in a wholesaling company in the United Kingdom. The company has provided for losses on settlement of advances made to this U.K. company of \$25,323. The company will receive approximately \$63,500 plus interest as payment of these advances over the next three years.

At the end of the 1973 fiscal year, the company provided \$150,000 to cover estimated losses on liquidation of inventories in the electronics manufacturing division; a further \$30,000 has been provided in 1974.

#### 7. STATUTORY INFORMATION

The aggregate direct remuneration paid by the companies to the directors and senior officers (as defined by The Business Corporations Act of Ontario) for the year amounted to approximately \$155,000 (\$132,440 — 1973).

#### 8. COMMITMENTS

Under lease agreements, the company is committed to annual rental payments of approximately \$236,000 until 1983 for certain manufacturing equipment and its manufacturing, warehousing and executive office facilities as well as its eleven "Mr. Music Stores".



## WHAT WE DO . . .

### Arc Recording & Talent Management

Selection and development of recording artists, music writers and the business management of their affairs.

### Arc Record Distributors

Creation and distribution, through high-traffic stores, of impulse-priced popular music concept packages of long play records and tapes.

### Arc Musical Instruments

Distribution of popular-styled musical instruments like guitars, banjos, music amplifiers, drums, and musical accessories to volume retail outlets.

### Precision Record Productions

Manufacture of phonograph records for Arc Record Distributors and custom accounts.

### AHED International

The international development, management and direction of recording artists and music writers.

### Mr. Music Stores

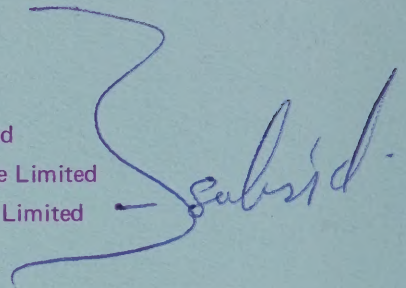
The retailing of keyboard products, namely, organs and pianos.



## AHED MUSIC CORPORATION LIMITED

### SUBSIDIARIES

Arc Sound Co. Limited  
Bay Music Co. Limited  
AHED International Limited  
Jim Blackley's Drum Village Limited  
AHED National Franchises Limited



### PRODUCT NAMES

Records & Tapes  
Arc, Yorkville  
Musical Instruments & Accessories  
Mr. Music  
Dana, Magenta  
Coronet, Crown  
Arc, Parise  
Dana, Darius

### DIVISIONS

Arc Musical Instruments  
142 Sparks Ave., Willowdale, Ont.  
Arc Record Distribution  
142 Sparks Ave., Willowdale, Ont.  
Arc Music and Talent Management  
142 Sparks Ave., Willowdale, Ont.  
Precision Record Productions  
142 Sparks Ave., Willowdale, Ont.  
Mr. Music Stores  
142 Sparks Ave., Willowdale, Ont.



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Phillip G. Anderson, Toronto, Canada  
Jack C. Anderson, Toronto, Canada  
Walter M. Bowen, Toronto, Canada  
Partner-Blaney, Pasternak, Smela, Eagleson & Watson  
William R. Gilliland, Toronto, Canada  
Johannes F. A. Jurrius, Toronto, Canada  
Donald O. Resnick, Toronto, Canada  
Sr. Partner- Resnick, Wintraub & Co.

### OFFICERS

Phillip G. Anderson, President and Treasurer  
William R. Gilliland, Executive Vice-President,  
Jack C. Anderson, Vice-President, Record Manufacturing  
Johannes F. A. Jurrius, C.A., Vice-President and  
Comptroller

### BANK

The Bank of Montreal, Toronto, Canada

### TRANSFER AGENT & REGISTRAR

Canada Permanent Trust Co., Toronto, Canada  
Canada Permanent Trust Co., Montreal, Canada

### CORPORATE COUNSEL

Blaney, Pasternak, Smela, Eagleson & Watson,  
Toronto, Canada

### AUDITORS

Clarkson, Gordon & Co., Toronto, Canada

### LISTED

Toronto Stock Exchange

## AHED MUSIC CORPORATION LIMITED

142 Sparks Ave., Willowdale, Ontario M2H 2V9  
Telephone (416) 499-5000



